

VZCZCXRO1288
PP RUEHIC
DE RUEHVB #0678/01 3221004
ZNR UUUUU ZZH
P 181004Z NOV 09
FM AMEMBASSY ZAGREB
TO RUEHC/SECSTATE WASHDC PRIORITY 9660
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEAIIA/CIA WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 ZAGREB 000678

SENSITIVE
SIPDIS

EUR/SCE FOR CATHERINE WESTLEY

E.O. 12958: N/A
TAGS: ECON EFIN PGOV PREL HR
SUBJECT: PM KOSOR DRAWS IN OUTSIDE EXPERTS AND ELEVATES OLD GUARD FOR NEW ECONOMIC TEAM

ZAGREB 00000678 001.2 OF 002

¶1. (U) SUMMARY: Croatian PM Kosor announced on November 13 the appointment of Croatian Employers' Association (HUP) Executive Director Djuro Popijac as Minister of Economy, and Health Minister Darko Milinovic and Finance Minister Ivan Suker as Deputy Prime Ministers in addition to their current positions. Additionally, Kosor named three prominent local economists to an advisory council. With a total of five deputy prime ministers, the new government structure could be unwieldy. But Kosor's decision helps to simultaneously silence critics in the business community and reassure the upper leadership of the HDZ of her support. The new, smaller economic council could serve her even better, as they are all respected economists who are mostly apolitical and likely to give very frank advice. END SUMMARY

EMPLOYERS ASSOCIATION PRESIDENT NAMED AS MINISTER OF ECONOMY

¶2. (SBU) Djuro Popijac, head of the Croatian Employers' Association (HUP), is the new Minister of Economy, replacing Damir Polancec, who resigned two weeks ago over alleged links to an ongoing corruption investigation. As HUP president, Popijac was one of the GoC's loudest critics on the introduction of VAT increases and a "crisis" income tax. He has also made frequent public calls for lowering public expenditures and the overall tax burden on businesses. As Minister, Popijac will be responsible for GoC policy and oversight on trade, energy, insurance, labor, investment, and export promotion. He will notably not carry the simultaneous title of Deputy Prime Minister that his predecessor carried. Given Popijac's previous position on the employers' side in negotiations with labor unions, it is no surprise that unions are generally unhappy with the appointment.

¶3. (SBU) Prior to his tenure as HUP Executive Director, Popijac was President of the Croatian Financial Agency (FINA), Croatia's payments clearinghouse, where he spent the majority of his career. He is credited for the work that established the financial payment systems in Croatia following independence from the former Yugoslavia.

MINISTERS OF HEALTH AND FINANCE PROMOTED TO DEPUTY PRIME MINISTERS

¶4. (SBU) In addition to the new Economy Minister, Minister of Health Darko Milinovic and Minister of Finance Ivan Suker were named as Deputy Prime Ministers. These appointments will bring to five the number of Deputy PMs in the 20 member government. Milinovic will now be number two in the government under Kosor, which reflects his position as deputy president of the HDZ. Suker's position as Deputy PM for Economy will entail only limited expansion of his authority, but he will bear political responsibility for the actions of the new team. Since the other three Deputy PMs are all from

coalition allies, the elevation of Milinovic and Suker, both old guard loyalists of the ruling HDZ party, appears to be a gesture by Kosor to the HDZ inner circle to reassure them that the party still forms the backbone of the government.

NEW ECONOMIC COUNCIL: EXPERTS READY TO TACKLE THE BUDGET DEFICIT

¶ 15. (SBU) Kosor's November 13 announcement also established a new council of experts to advise her on economic questions. The economic council is comprised of private equity investor and former finance minister Borislav Skegro, Head of the Zagreb Institute of Economics (EIZ) Sandra Svaljek, and EIZ analyst Zeljko Lovrincevic. According to Kosor, the council's immediate task will be to advise her on how to manage or reduce Croatia's budget deficit as well as the potential removal of some politically appointed executives from supervisory boards of public companies. Croatian media and financial analysts praised the appointments. All of the members are seen as 'outside' the political sphere and are locally respected experts well familiar with Croatia's economic problems.

COMMENT

¶ 16. (SBU) Kosor's announcement serves the dual purpose of satisfying some of her loudest critics from Croatia's business community and maintaining HDZ harmony. She was under heavy pressure to name a new team to jump start economic reforms even before former Economy Minister Polancec was tied up in the Podravka scandal. She needed to name an economic policy maker to the Deputy PM post to reflect her seriousness in tackling economic problems. However, the party hierarchy dictated that Milinovic be named as well, resulting in the unprecedented number of deputy prime ministers. She will

ZAGREB 00000678 002.2 OF 002

need to skillfully manage this somewhat unwieldy structure to move forward on key reforms in the economy and health care. She may have better luck with the new, smaller, council of economic experts. Previous efforts to cull outside economic advice suffered from soliciting too diverse a cross-section of experts, resulting in muddled recommendations, or even no recommendations at all. In the new body, two of the three people named (Svaljek and Lovrincevic) are part of the same economic research organization, and the third (Skegro) has benefited from many years in the private sector where he has been outspoken in his criticism of Croatia's business and investment climate. The advice she will get from these three will likely be apolitical and very frank. It will then be up to Kosor, Suker and Popijac to figure out whether they can implement it. END COMMENT.

FOLEY